



974 Commercial Street  
Palo Alto, California  
DAvenport 1-4175

REGISTERED - RETURN RECEIPT REQUESTED

**Contracting Officer**

DPD-1783-60  
COPY 1 OF 2

25X1

**Subject:** Part VI - Price Redetermination

Gentlemen:

DOCUMENT NO. 19  
NO CHANGE IN CLASS ☐  
☐ DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: 2011  
AUTH: HR 70-2  
DATE 2/4/89 REVIEWER: 018373

As a basis for arriving at the above price, we have used our revised cost summary (Exhibit III). The dollar difference in the original cost summary and the revised cost summary is a result of using different overhead rates. Our work on this contract was accomplished during two auditing periods. Using principles established in ASPR Section XV for CPFF type contracts, your auditor developed rates that are different from the actual rates used in the original cost summary. We recognize the use of ASPR cost principles as "guides" in establishing redetermined prices, but they are guides only, and there are really no "official cost principles" for determining allowability of costs for redetermined fixed price contracts. Therefore, we cannot concur with the disallowances proposed by your auditors. However, in the interest of moving our negotiations along, we are willing to accept the audited rates of [redacted] established for the period 9/1/59 to 11/30/59, if your organization will be willing to accept the General Research Expense (experimental costs) as an allowable overhead charge in the period 4/1/59 to 8/31/59. If this suggestion is acceptable, the overhead rates for the first period would be Burden [redacted] The computation of these rates is shown in Exhibit IV.

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Perhaps an explanation of our General Research Expense is in order to support its inclusion as an allowable overhead item. Our general research work is designated as a "Work Order" and costs are collected against work order numbers for control purposes. At the conclusion of an investigation, work orders are written off against an appropriate expense account. During the audit period in questions, two such work orders, No. 17 for \$1,658.49

**CONTAINS SENSITIVE  
COMPARTMENTED INFORMATION**

8 E-509 (Prof)

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and No. 20 for \$4,266.70, were written off as current overhead expenses. Work Order No. 17 was an Investigation of Large Power Amplifier Cavities and Work Order No. 20 was for the Preliminary Investigation of Backscatter Design. In this work, basic concepts and techniques relating to backscatter communications and power cavities were investigated and developed.

As you know, practically all of our work is either directly or indirectly for the Government. The costs of our general research work were allocated to all contracts. The concepts and techniques developed as a result of this work were extensively used in and were basic to our Projects GA-73, "Operation Smokepuff" for a Stanford University Air Force contract; GA-85 and 85A, "Research on ARC-38 Modification and Field Operation," for the Office of Naval Research; and, GA-99, "Development of a 100 kw Amplifier" for ERCO under an Office of Naval Research contract. We feel the applications of the research results as described above clearly indicate the work was for the benefit of the Government; it was definitely related to our field of work and since it was a reasonable amount, should be included as an allowable indirect cost in our overhead.

We feel that the work covered by the above described work orders falls within the definitions of research and development work as specified in the proposed new ASPR 15-705.35 (a) and (c) and as such would qualify as an allowable cost under ASPR 15-205.35 (a) for CPFF contracts. Granted the new ASPR regulations quoted above are not mandatory as yet, however, their current use is optional. It seems logical that if the new ASPR regulations are to recognize reasonable General Research Expense as an allowable overhead item for CPFF contracts there should be no question about currently including the same expense as an allowable item for a fixed price contract.

The profit we have included in our proposed redetermined price is on the basis of the Type IV Price Redetermination formula which we discussed early in the negotiations on this contract. The profit computation is summarized below:

Total Contract Target Price	\$ 83,986.11
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Item 1 - 2 ea Model 504	\$ 64,866.00
Item 2 - 2 ea Spare Kits	18,560.00
Item 3 - 1 ea Test Support Equipment	560.11

Contract Target Cost		25X1
Contract Target Profit		

83,986.11
<u>83,986.11</u>

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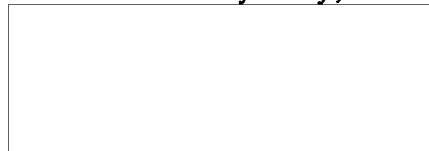
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The residual materials remaining on hand at completion of the project are shown on Exhibit VI. We have purchased for our own account, and at acquisition cost, the items identified by the asterisk. The total of the items purchased are shown as a credit in arriving at the net amount billable on page 3.

In addition to the materials shown on the Residual List we also have on hand two Huggins Traveling Wave Tubes with acquisition costs of \$1,525.00 and \$3,400.00. As you will remember, these were ordered as spares for the first Model 504 we built for your organization and were subsequently transferred to the subject contract as G.F.E. We also have on hand the original Model 504 which was returned to us from the field. We will await your instructions for final disposition on all this material.

We hope the above information is sufficient to enable you to evaluate our proposal for the establishment of a final renegotiated price. If you have any questions, please do not hesitate to check with us.

Yours very truly,



Vice President and  
Treasurer

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RH:jb

Attachments: Exhibit I - Summary of Costs  
Exhibit II - Auditor's Computation of Overhead & G&A (4 pages)  
Exhibit III - Summary of Costs Claimed After Audit  
Exhibit IV - Computation of Overhead Rates  
Residual Material List

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GRANGER ASSOCIATES  
Palo Alto, California

GA-77 RESIDUAL MATERIAL LIST

<u>QUANTITY</u>	<u>MANUFACTURER</u>	<u>CATALOG NO.</u>	<u>DESCRIPTION</u>	<u>UNIT PRICE</u>	<u>TOTAL PRICE</u>	<u>GEP Item no.</u>
1	Rotron	AXIMAX-2	Blower	\$55.00	\$55.00	1
1	C.W.	Ser #213759 26.5-60-HA)	Snapper	10.68	10.68	2
3	Winchester	PM6S	Connector	1.13	3.39	
3	Winchester	HMRE7PG	Plug	4.98	14.94	3
1	Winchester	MRE7PG	Plug	1.10	1.10	
* 2	RCA	2N247	Transistor	3.16	6.32	✓ 14
6	Philco	2N345	Transistor	4.26	25.56	15
2	GE	2N491	Transistor	8.09	16.18	65
1	GE	2N123	Transistor	5.29	5.29	
4	Philco	2N671	Transistor	6.31	25.24	
3	Raytheon	2N620	Transistor	25.90	77.70	94
4	Hughes	HA7508	Transistor	30.39	121.56	20
4	Hughes	HR10255	Transistor	5.27	21.08	
3	PSI	1N1732	Diodes	17.15	51.45	55
9	Hughes	1N626	Diodes	1.94	17.46	12
* 2	Hughes	1N191	Diodes	.98	1.96	95
* 4	Hughes	1N270	Diodes	1.25	5.00	
* 1	T.I.	1N487	Diodes	3.95	3.95	
* 3	Plastic Cap.	OF30-104	.01-3kv	1.91	5.73	24
2	Plastic Cap.	OF20-103	.01-2kv	1.65	3.30	25
* 2	Plastic Cap.	OF30-502	.005-3kv	2.53	5.06	
* 1	Plastic Cap.	OF30-203	.02-3kv	3.00	3.00	26
1	Plastic Cap.	D6-30-250	.25-3kv	3.86	3.86	27
2	Victoreen	GV3-4-2000	Regulator	6.71	13.42	28

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<u>QUANTITY</u>	<u>MANUFACTURER</u>	<u>CATALOG NO.</u>	<u>DESCRIPTION</u>	<u>UNIT PRICE</u>	<u>TOTAL PRICE</u>
* 3	Gudeman	XFS-2712-10	.068-100V Caps	\$ 1.76	\$ 5.28 <i>74</i>
* 2	Gudeman	XFS-2715	.22-100V Caps	2.14	4.28 <i>82</i>
* 3	Gudeman	XFS-2707	.01-100V Caps	1.91	5.73 <i>81</i>
* 3	Gudeman	XFS-2705	.0047-100V Caps	1.80	5.40 <i>84</i>
* 3	Gudeman	XFS-2764	.01-400V Caps	1.86	5.58 <i>86</i>
1	Gudeman	XHF-2519J-10	.5-400V Caps	3.45	3.45
2	GE	29F496	6V-15V Tant Cap	24.20	48.40
1	GE	29F484	580-15V Tant Cap	31.92	31.92 <i>58</i>
4	GE	29F557	2.5-15V Tant Cap	4.91	19.64 <i>57</i>
3	GE	29F469	1-150V Tant Cap	5.09	15.27 <i>63</i>
2	GE	29F481	60-15V Tant Cap	4.95	9.90
2	GE	29F447	4-15V Tant Cap	8.60	17.20
1	GE	29F482	200-15V Tant Cap	14.91	14.91 <i>56</i>
1	GE	29F627	32-30V Tant Cap	8.43	8.43 <i>60</i>
1	GE	29F480	15-15V Tant Cap	5.13	5.13
2	N. U.	6842	Tubes	13.23	26.46
1	RCA	12AT7WA	Tubes	2.75	2.75 <i>42</i>
2	Bourns	120 I-e-10,000	Trimpots	5.28	10.56
1	Bourns	120 I-E 1,000	Trimpots	7.14	7.14 <i>38</i>
1	Bourns	120 I-E 50	Trimpots	7.14	7.14 <i>39</i>
1	Bourns	120-15-100,000	Trimpots	7.14	7.14 <i>40</i>
4		UG-27C/U	Connector	2.69	10.76 <i>51</i>
4		UG-21D/U	Connector	1.26	5.04 <i>50</i>
1		UG-28A/U	Connector	2.75	2.75

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<u>QUANTITY</u>	<u>MANUFACTURER</u>	<u>CATALOG NO.</u>	<u>DESCRIPTION</u>	<u>UNIT PRICE</u>	<u>TOTAL PRICE</u>
3	Cannon	MS-3108-E-18-1S(c)	Connector	\$ 4.87	\$14.61
* 1	Cannon	MS- <del>1</del> 102-A-18-1S(c)	Connector	1.60	1.60
* 1	Cannon	MS-3102-E-18-1P	Connector	1.77	1.77
* 1	Cannon	MS-3106-B-18-1S(c)	Connector	2.10	2.10
* 1	Amphenol	MS-3102-A-22-11S(c)	Connector	1.02	1.02
* 1	Amphenol	MS-3102-A-22-11P	Connector	.78	.78
2	Amphenol	AN-3057-10	Clamps	.59	1.18
* 1	Amphenol	MS-3106-B-22-11S(c)	Connector	2.22	2.22
2	Plastic Cap	OF-20-504	Caps	2.34	<u>4.68</u> <sup>9r</sup>
				TOTAL	<u>\$808.45</u>

\* Items purchased from Project Account by Granger Associates  
at Acquisition Cost. Total Amount: \$66.78 ^